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SIPDIS

STATE PASS USTR - WEISEL AND JENSEN
STATE PASS FEDERAL RESERVE AND EXIMBANK
STATE PASS FEDERAL RESERVE SAN FRANCISCO TCURRAN
SINGAPORE PASS TO S.BAKER
USDOC FOR 4430/MAC/EAP/J.BAKER
TREASURY FOR OASIA AND IRS
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SUBJECT: The Challenge of Dealing with Malaysia Inc.

11. (SBU) Summary: Doing business in Malaysia can be a challenge for foreign firms and the recent DiGi.com restructuring is a case in point. DiGi.com, a mobile telephone service provider majority-owned by Norway's Telenor ASA, needed to reduce its equity stake in the firm this year to meet GOM requirements and it needed access to a third generation (3G) license to continue to expand its business. DiGi had lost bids to obtain the license in 2005 to two local mobile phone companies, and again in 2006 to two local companies not engaged in the mobile phone service industry, even though 3G technology is specifically for mobile telephones. In what looks very much like a government orchestrated set up, Telenor was herded into resolving its equity and licensing problems by making a deal with Time dotcom, an unprofitable company owned by the Government of Malaysia (GOM) which just so happened to be the lucky recipient of a 3G license from the GOM in 2006. On November 15 Telenor sold a 10.2% stake in DiGi.Com to Time dotcom, reducing its stake to 49% as required under GOM foreign equity ceilings. In return, Time dotcom will transfer its 3G license to DiGi, according to press reports. Essentially, Telenor is paying the GOM-owned firm a USD 188.7 million premium to gain access to the 3G license. That's easy money for the government-owned firm but a bitter "cost of doing business in Malaysia" pill for Telenor. End summary.

THE HISTORY

12. (SBU) In 2000, Norway's Telenor ASA bought a majority stake in DiGi.com, a publicly listed Malaysian firm owned by politically connected Malaysian businessman Vincent Tan. Over the next five years, Telenor turned DiGi into Malaysia's second largest mobile phone service provider. In 2005, the GOM announced that it would issue three third generation (3G) licenses. [Note: 3G wireless technology is designed to improve the speed and quality of mobile telephone service and combine the functionality of a mobile phone with that of a PC and a personal organizer/PDA. End note.] DiGi, having the second-largest subscriber base in Malaysia, was expected to be granted one of the three licenses. However, when the awards were announced in August 2005, only two licenses were granted: one to Maxis Communications and the other to government-owned Telecom Malaysia, the country's largest and third-largest mobile phone service providers, respectively. [Note: Maxis Communications is owned by politically influential billionaire Ananda Krishnan. End note.]

13. (SBU) DiGi was told more licenses would be issued the following year and in March 2006 the GOM issued two more licenses, but not to DiGi. Instead, one was given to Time dotcom, an unprofitable

government-owned fiber-optic company, and the other to MiTV, a failing pay-TV operator owned by none other than Vincent Tan, the man who sold his stake in DiGi to Telenor back in 2000. The GOM issued licenses to Time dotcom and MiTV for the 3G mobile phone technology, despite the fact that neither company was a mobile telephone service provider. In his press statement announcing the awards, Minister of Energy, Water and Communications Dr. Lim Keng Yaik said, "To achieve a win-win situation, the successful applicants have been directed to work with DiGi and other service providers as a mobile virtual network operator."

THE DEAL

¶4. (SBU) In a move to comply with Malaysia's equity regulations on foreign investors in the telecommunication industry, Telenor ASA reduced its controlling equity stake in Malaysia's mobile phone operator DiGi.com to 49% on November 15, 2007. The deal involved the sale of a 10.2% stake comprising 76.5 million DiGi shares to government linked corporation Time dotCom for RM 1.61 billion (USD 480 million), at a cost of RM 21.05 per share.

¶5. (SBU) As part of the agreement, DiGi will gain access to Time dotcom's 3G license until April 2018 in exchange for issuing 27.5 million new DiGi shares (equivalent to a 3.5% stake in DiGi). At its current share price of RM 24.80, this is worth RM 682 million (USD 203.6 million). The government awarded the 3G license to Time dotcom in 2006 for RM 50 million (USD 15 million). DiGi Chief Executive Officer Morten Lundal told reporters that DiGi.Com would invest up to RM 800 million (USD 238 million) over the next three years in the 3G spectrum following Time dotCom's acceptance of its offer to form a business alliance. The alliance with Time dotCom also gives DiGi access to the former's fiberoptic network and WiMax capacity. The company plans to roll out 3G services by the second half of next year. However, Minister Lim Keng Yaik told the press

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that the license was not transferable. Time dotCom would have to request special permission to transfer the license and, as far as he knew, to date no request had been made.

¶6. (SBU) Comment: The DiGi-Time dotcom tie-up is a perfect example of how business often is conducted in Malaysia's service sector. Malaysian companies owned either by cronies or by the government are awarded coveted licenses in closed deals, enabling them to engage in rent-seeking behavior while letting others do the work. Time dotcom, which has incurred losses for years, has done nothing with the 3G license it obtained in March 2006. Now it is flipping that license for the tidy sum of RM 682 million (\$ 203.6 million), giving the company a new lease of life. Innovative companies like Telenor are left to wheel and deal their way through the Malaysian bureaucratic mess and still somehow manage to make a buck.

KEITH